

ANZ 2014 Annual General Meeting

Chairman's Address

Good morning ladies and gentlemen.

I want to pause for a moment to acknowledge the tragic events which played out in Sydney earlier this week.

Many of our staff, our customers and our friends work in Sydney's CBD and from the early 1960s until last year, Martin Place was the location of our New South Wales head office.

It makes the events that occurred there is week deeply personal and on behalf of everyone at ANZ our thoughts are with all those affected by this terrible tragedy.

Now, as a quorum is present, I formally declare this Annual General Meeting of Shareholders open. I propose to take the Notice of Meeting as read.

Let me say that after an absence of six years, it is a privilege to be back at the Bank as your Chairman.

Some of you may remember, I had the honour to serve on your Board from 2002 to 2007.

I am excited to return to the Board of a large bank as I know what a successful bank can do to support the ambitions of individuals, of businesses, of employees, of shareholders and indeed of the community as a whole.

While Australia has one of the highest levels of bank satisfaction in the world, the fact is Australians have a love-hate relationship with our four major banks.

On the one hand, they think the banks are too big and need more competition. On the other hand, Australians want a strong and safe financial system.

Australians quite rightly have high expectations of their banks. They are disappointed when we make mistakes or believe we let them down.

However it should never be forgotten that Australia's banks have played, and continue to play, a critical role in building our economy for the benefit of all Australians.

We provide a safe place for individuals, businesses and government to store their wealth and to have easy, convenient access to their money.

In doing so, we help people save for homes, for their children's education and to build secure retirement plans.

We also put the savings of a community back to work in that community.

Consumer and business credit is essential to a healthy, diverse and innovative economy.

And Australia's banks are the single largest supplier of credit that finances business expansion and creates jobs.

Australia's banks supply over three quarters of all the loans to small business we are the biggest lenders for housing the biggest lenders to community groups and the biggest lenders to farmers.

As the biggest lenders to agricultural producers, we understand that we have a commitment to working with farmers throughout the cycle.

We know that conditions in some parts of rural Australia, particularly in New South Wales and Queensland, are the worst in a generation.

Illustrating that we are aware of these conditions, we recently announced a new support package for farmers being hurt by the drought in those areas.

That package includes a moratorium on new foreclosures to allow farmers to stay on their land and a twelve month commitment not to increase interest rates on distressed farms and to provide interest rate relief in cases of extreme distress.

Financial assistance to support farmers choosing to move off the land is also included in the package, as is increased funding for rural counseling.

However this drought has highlighted a broader issue in rural Australia.

That is the one of farmers and their families who are struggling, not only with drought, but a range of challenges including high levels of debt, the effects of the live cattle issue and weaker prices for some of their products.

We will continue working with government, rural organisations and farmers on this pressing challenge.

Australia's banks also play an important role in enabling agricultural producers and, more generally, supporting companies big and small so that they can compete overseas.

And banks play another critical role by facilitating the exchange of payments between people, business and governments.

Trillions of dollars flow through the banking system each day. For example, it is estimated that banks process more than 17 billion payments each year valued at over \$97 trillion.

Federal, state and local government also rely on banks.

Through direct loans, underwriting and investing in government debt obligations, banks are critical to the long-term financing of state and local government projects.

Because of the important role we are trusted to play, Australia's banks have to maintain a long-term focus.

Indeed, our banking industry in Australia is nearly 200 years old.

Our progress has not always been perfect and banks have made mistakes.

When we fall short, as can happen in business, we admit it, we learn from it and we move forward with a stronger understanding and commitment to doing what is right.

I know that many people talk about banks as large impersonal organisations.

The reality is, they are not.

ANZ is made up of more than 50,000 highly trained and decent people who work hard to do the right thing and the right thing for our customers every day.

This is a bank that has a very clear sense of its future in Australia, in New Zealand and in Asia Pacific and a very clear sense of how it will contribute to the success of its customers and to building stronger communities.

Ladies and gentlemen, I would now like to introduce your directors and the executives on stage all of whom share the vision of what banks do and can do to which I have just referred.

To my right is our Chief Executive Officer, Mike Smith.

Further to my right is Graeme Liebelt. Graeme chairs the Human Resources Committee of our board and you will hear from him later.

Next to Graeme is Ilana Atlas who became a director in September. Ilana is standing for election at today's meeting.

To my immediate left is Shayne Elliott, our Chief Financial Officer.

Then we have Ian Macfarlane. Ian is Chair of the Risk Committee. Seated next to him is Paula Dwyer who is the Chair of the Audit Committee.

And beside Paula, is Lee Hsien Yang. Hsien Yang is the Chair of the Technology Committee.

And finally on my far left is John Macfarlane. John joined the board in May this year and is also standing for election at today's meeting.

In addition, the ANZ executives behind me from your left are: John Priestley our Company Secretary; Shane Buggle, our Deputy Chief Financial Officer; and Bob Santamaria, our Group General Counsel.

In the audience we also have Andrew Yates from KPMG, our external auditor.

I also want to formally acknowledge a number of directors who have retired in the past year as part of the succession and renewal process for the Board.

The first is John Morschel who had served on the Board since 2004 and was our Chairman from 2010 until May of this year.

John made an outstanding contribution to ANZ and on behalf of all shareholders and the Board I would like to thank him for his service.

Two long serving directors, David Meiklejohn who ably chaired our Audit Committee, and Greg Clark who was the first chair of our Technology Committee, retired at last year's Annual General Meeting.

This was part of a succession plan that saw Paula and Graeme join the Board.

David and Greg gave significant service to ANZ over many years and we also thank them.

Finally, Peter Hay and Alison Watkins also retired from the Board as a result of their commitments at other companies.

Both Peter and Alison made an important contribution to Board deliberations and we also extend thanks to them for their service.

All the rest of the senior management team are here.

They are seated in the front row and I know they would welcome the chance to meet you over a cup of tea after the meeting.

Let me take this opportunity to say that having worked closely with Mike and his team in recent months, I am impressed with the depth of capability and the international experience of our senior management group.

It is an even stronger executive team than when I left in 2007 and it is a team that I believe ranks among the best leadership groups of any commercial bank globally.

Before I discuss ANZ's financial performance in 2014 let me expand on the foundation from which we operate.

Next year we mark the 180th anniversary of ANZ's founding. Over those years our growth has mirrored the growth of Australia and New Zealand, and in more recent times the growth of Asia Pacific.

Guiding us over almost two centuries has been a focus on acting with honesty and integrity, on growing our business sustainably, on managing risk, and on approaching our role in society with a strong sense of duty and care toward our customers and towards the community.

Our corporate responsibility framework emphasises three priority areas.

The first is sustainable development. By this I mean integrating social and environmental considerations into our business decisions, and our products and services.

Our aim is to help our customers achieve their sustainability ambitions and deliver long-term value for all our stakeholders.

It is in this area of sustainability that the issue we will be dealing with in resolution 5 becomes relevant.

While ANZ is not a high carbon emitter we do lend to the energy sector including financing power generation.

We apply the same principles here as we do to every other part of our loan book.

We use a combination of sophisticated systems and experienced staff to determine whether our loans are to borrowers who will be able to repay those loans now and in the future and given a wide range of scenarios.

We work hard to ensure what clients do with our funds complies with our obligations to society.

That's why we meet with non-government and other groups to discuss these issues. We know that there are a range of views on how the world can transition to a lower carbon economy.

As a company, it's not our job to act as the moral police or take on the role of government. Our job is to ensure the sustainability of our business and to do the right thing by our stakeholders our staff, our shareholders and the broader community.

I said earlier that we do undertake detailed planning to factor related risks into our lending decisions.

This includes an assessment of our customer's ability to deal with a range of climate change scenarios and possible regulatory changes.

We aim to be very transparent on our lending exposures.

Our various reports, which are published on our website, include details of our lending policies.

APRA, the Australian Prudential Regulation Authority, also requires that we issue a public quarterly report on capital adequacy and risk management practices.

We are also announcing today that ANZ will report on carbon emissions from our project finance lending to the power generation sector. This report is available on our website from today.

It shows that the average emissions intensity of generation financed by ANZ is 20 per cent lower than the Australian average.

It also shows that outside Australia, the average emissions intensity of power generation financed by ANZ is 17 per cent below the grid average in those countries.

This new disclosure shows we are supporting the transition to a lower carbon economy. It also means you will be able to track our progress in reducing the emissions intensity of our power generation portfolio.

We believe this is a practical step forward and I understand that this places ANZ at the forefront of financed emissions reporting globally.

As a Board we are committed to carefully monitoring the sustainability of our lending in this area. We are equally committed to work with government, business and the community to address the policy risks associated with energy supply and climate change.

As a result, the Board, does not believe that altering our constitution as suggested by resolution 5, will provide shareholders with a meaningful understanding of our carbon risk management or exposure or indeed be useful in longer term considerations.

The second priority area in our corporate responsibility framework is building the most diverse and inclusive workforce of any major bank in our region.

There is still much to do. However I am very pleased to report that in 2014, our ratio of Women in Management increased slightly to 39.2% and we were recognised during the year as Employer of Choice by the Workplace Gender Equality Agency.

We also exceeded our global targets for hiring people with a disability.

And reflecting our business strategy and the diversity of our customer base, 26% of our Australian graduate intake in 2014 spoke an Asian language which is a great result.

The third priority area is building the financial capability of communities across our region.

For example, we have now reached nearly 300,000 people through our MoneyMinded adult financial education program. This program helps people build their skills, knowledge and confidence in managing their money.

The gains we have made in market share and in customer satisfaction in key areas of our Australian, New Zealand and Asia Pacific businesses demonstrate that customers are responding to this approach.

Let me now turn to ANZ's strategy and our financial performance in 2014.

What is clear to me following my return to ANZ, is that since the Global Financial Crisis Mike Smith and his management team have transformed ANZ into a bank that is more customer focused, more regionally diversified, more efficient and indeed more sustainable.

Your bank has the right strategy to deliver strong shareholder returns today and over the longer term.

ANZ's super regional strategy is based on three pillars.

The first is strengthening the core franchises we have in our home markets of Australia and New Zealand.

The second is profitable growth in Asia by servicing trade, capital and wealth flows into and across the region.

Our international business in Asia Pacific, Europe and America, now drives nearly a quarter of our total revenues.

This provides ANZ with meaningful growth options without the need to take on additional risk.

During my last time at ANZ, the Board knew we had to be in Asia, we just didn't know how. Mike's super regional strategy has very successfully provided the "how".

The third pillar of the strategy involves a whole of company approach to building the business on common platforms and processes to reduce unit costs, complexity and indeed risk.

I am pleased to report that our focus on these three pillars saw your bank performing well in 2014 with statutory profit up 15 per cent to \$7.3 billion.

The final dividend, which was paid into shareholder's bank accounts this week, was up 14 per cent to 95 cents a share fully franked. The total dividend for the year was up 9 per cent to \$1.78 a share.

This has seen ANZ distribute \$4.9 billion of dividends to shareholders for this year. Over 70 per cent of this will be paid to our Australian-based retail and institutional investors.

Strong organic capital generation of \$3 billion in the second half of the year, coupled with our ongoing focus on capital efficiency, saw ANZ's Common Equity Tier I capital ratio increase to 8.8%.

Credit quality also improved. Gross impaired assets continued their downward trend reducing by a further 32%, and have now reduced at an average of a little over \$900 million each year since 2010.

This consistent performance means ANZ remains one of the world's strongest banks. And indeed, this year we were named one of the world's 20 safest banks, and one of the 10 safest commercial banks in the world.

Australia has of course benefited from having a very stable, strong and conservatively managed financial system.

This was recognised in the final report of the Financial System Inquiry, often called the Murray Inquiry, released earlier this month.

We believe the Financial System Inquiry should be commended for its principles-based approach and for referring a number of its recommended changes to the banking system to APRA.

APRA and the other government authorities steered Australia's banking system well during the Global Financial Crisis. We have a good working relationship with APRA and have a great deal of respect for its people.

We also support a risk-based approach to capital management and the adoption of measures to maintain a strong domestic financial system.

At the invitation of the Federal Government, we'll be making submissions in response to the Inquiry's report in the next few months and we welcome being involved in discussions with them, with APRA and with other interested parties.

Whatever happens after discussions next year ladies and gentlemen, I want you to know that ANZ is already strong and has a range options open to ensure it is "unquestionably strong".

I assure shareholders that your bank has been actively managing its capital position in anticipation of this and will continue to do so.

Finally, let me turn to the outlook.

The resources sector, which has been such an important driver of the Australian economy in recent years, is going through a period of transition from an investment phase to a production phase.

At the same time, while it is clear hard and soft commodities will continue to play an important role in Australia's future, our services sector including our world class providers of education, health, information technology and engineering services will need to become an even more important part of our economic future.

As a country we have dealt with extraordinary challenges over the past decade and there is no reason to expect we will not see sustained economic growth over the longer term.

We have low interest rates, low inflation, a strong financial system and a growing population. Our resources base in both hard and soft commodities and the skills of our people are unique and these will continue to be in demand as the Asian economies grow.

In 2015, while we expect interest rates to remain low and the decline in the Australian dollar will be good for many sectors of the economy, we believe the economy will grow somewhat more slowly than in the past year.

In anticipation of this, we have been adjusting the way we execute our strategy to ensure we can deliver on shareholder expectations.

It means that in a slightly more challenging environment, ANZ is well positioned to maintain its momentum and to deliver peer-leading Earnings per Share growth and Total Shareholder Return over the medium-term.

Before I ask our Chief Executive Officer Mike Smith to speak, let me sincerely thank the more than 50,000 individual members of staff who work for ANZ around the world.

Results like this don't just happen. They are the result of a clear and consistent strategy, purposeful management action and the hard work and dedication of all of our people in 33 countries.

The Board appreciates what all of you do and I believe so to do our shareholders.